Trust Fund Solvency

Medicare Part A Trust Fund Solvency

The part of Medicare that pays for hospital insurance (the Part A Hospital Insurance (HI) Trust Fund) is financed primarily by payroll taxes paid by workers and employers. The taxes paid each year are used mainly to pay benefits for current beneficiaries. Income not currently needed to pay benefits and related expenses is held in a trust fund and invested in U.S. Treasury securities.

The financial projections shown for the HI program in the 1999 Trustees Report (which reports on calendar 1998) represent a considerable improvement over those shown in the 1998 report. The improvement arises from higher payroll tax revenues in 1998 than had been estimated and lower benefit expenditures, together with adjustments to projected income and expenditure growth for the future based on this experience. In 1998, HI income exceeded expenditures by $4.8 billion – the first time in four years that the trust fund has experienced a positive cash flow on an annual basis. Collectively, these impacts are estimated to postpone the depletion of the HI trust fund from 2008 until 2015.

Medicare Part B Trust Fund Solvency

The part of Medicare that pays for supplementary medical insurance (the Part B Supplementary Medical Insurance (SMI) Trust Fund), primarily physician and outpatient care, is financed primarily by appropriated funds (73%) and monthly premiums paid by beneficiaries (24%). Interest income makes up for the remainder. Income not currently needed to pay benefits and related expenses is also held in a trust fund (separate from the hospital insurance trust fund) and invested in U.S. Treasury securities. This trust fund is expected to remain adequately financed into the indefinite future because beneficiary premiums and government contributions are set (by law) to meet expected costs each year. Program costs have generally grown faster than the GDP and this trend is expected to continue under present law.

For more detailed information on the Medicare Trust Funds, please refer to the Trustees' reports at the HCFA web site: http://www.hcfa.gov

Understanding Medicare Trust Fund Investments

The Medicare trust fund assets are invested in U.S. Treasury Securities, which earn interest while Treasury uses those resources for other purposes (decreasing the Treasury's need to borrow from the public in order to finance the Federal debt). Unlike the assets of private pension plans, trust funds do not consist of real economic assets that can be drawn down in the future to fund benefits. Instead, they are claims on the Treasury that, when redeemed, will have to be financed by raising taxes, borrowing from the public, or reducing benefits or other expenditures. (When financed by borrowing, the effect is to defer today's costs to even later generations who will ultimately repay the funds being borrowed for today's Medicare beneficiaries.) The existence of large trust fund balances, therefore, does not make it easier for the Government to pay benefits.